



## MEMORANDUM

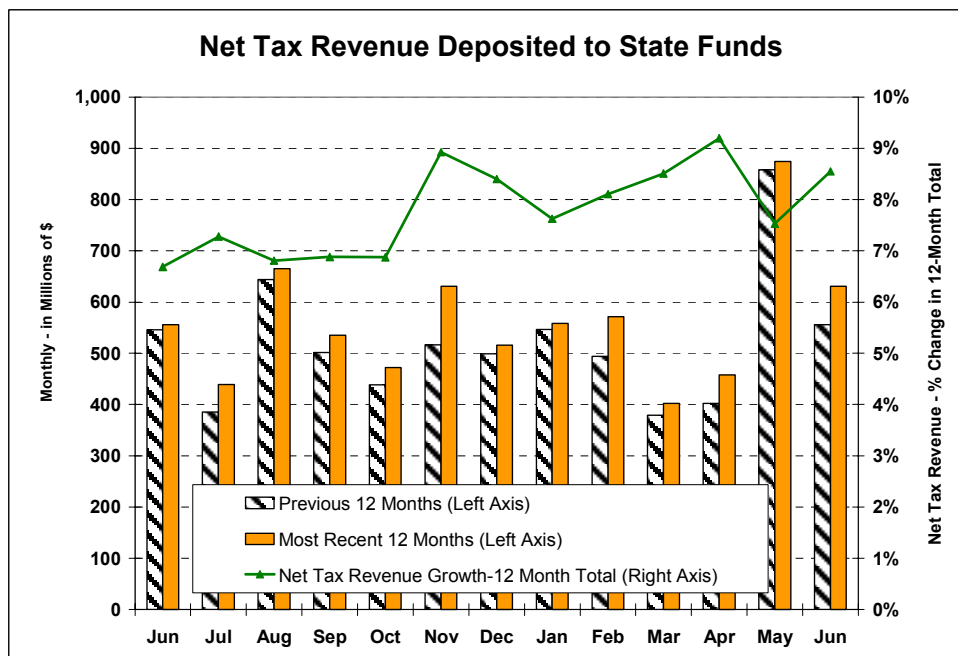
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: July 30, 2008

### Twelve-month Total Net Tax Receipts Through June 30, 2008

The attached spreadsheet presents net State tax receipts for the 12-month period ending June 2008 with comparisons to the previous 12 months. June 2008 to June 2007 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes.



### Month of June Comparison

June net tax receipts totaled \$631.1 million, an increase of \$74.8 million (13.4%) compared to June 2007. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$6.6 million, 2.9%) – Gross receipts were up \$22.2 million while Income Tax refunds were \$15.6 million higher for the month.
- Corporate Income Tax (positive \$19.4 million, 47.9%) – Gross receipts increased \$16.3 million and refunds decreased \$3.1 million. The comparison month of June 2007 was particularly weak for Corporate Income Tax.
- Sales/Use Tax (positive \$15.8 million, 9.9%) – Net General Fund Sales/Use Tax receipts increased a strong \$17.0 million while Use Tax deposited to the Road Use Fund decreased \$1.2 million.
- Fuel Tax (positive \$30.8 million, 81.1%) – Gross Fuel Tax revenue increased \$30.6 million while refunds processed in the month decreased \$0.2 million. The large increase is due to a deposit timing issue. The large Fuel Tax deposit is usually made at the beginning of each month. The July 2008 deposit appears to have been made June 30, causing the month of June 2008 to have two large monthly deposits. The situation should reverse in July. Without the deposit timing issue, Fuel Tax revenue growth for the month would have been negative.
- Cigarette & Tobacco Taxes (negative \$1.8 million, - 7.1%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased. With passage of the tax increase anniversary, the large year-over-year changes have ended.
- Insurance Premium Tax (positive \$0.1 million, 0.4%) – The Insurance Premium Tax rate was phased-down from 2.0% to 1.0% in 0.25% increments over several years and is now fully implemented.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending June 2008, net revenue from all taxes deposited to State funds totaled \$6.753 billion, an increase of \$532.0 million (8.6%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$200.9 million, 7.6%) – Individual Income Tax receipt growth has generally been strong over the past year.
- Corporate Tax (positive \$45.8 million, 14.0%) – Corporate Tax has shown strong growth since 2003. The rate of growth has tapered off over the past few months.
- Sales/Use Tax (positive \$120.0 million, 5.6%) – Despite high fuel prices, reduced home building and home equity withdrawals, as well as slowing national retail sales statistics, Iowa Sales/Use Tax receipts continue to show strength. Both General Fund and Road Use Tax Fund Sales/Use Tax receipt were significantly positive over the last 12 months.
- Motor Fuel Tax (positive \$28.8 million, 6.4%) – Net Motor Fuel Tax revenue has been flat over the past two years, likely the result of higher fuel prices reducing the growth in fuel demand. A deposit timing issue in June 2008 inflated the year-over-year comparison. Without this timing issue, Fuel Tax receipts would have been negative for the period.

- Gambling Tax (positive \$18.5 million, 6.7%).
- Cigarette and Tobacco Tax (positive \$116.5 million, 87.1%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007. The year-over-year rate of increase will decrease over the next 10 months.
- Insurance Premium Tax (positive \$6.5 million, 6.2%) – The Insurance Premium Tax rate was reduced over multiple years and is now fully implemented.

## **Tax Spotlight – Sales/Use Tax**

Sales of goods and services to the final user are taxed under the authority of Chapter 423, Code of Iowa. The sale of all tangible property to the final user is subject to tax unless the tangible property is specifically exempt in Section 423.3, Code of Iowa. The sale of services is exempt unless specifically enumerated in Section 423.1(6), Code of Iowa. With a few exceptions, items that are exempt from Sales Tax are also exempt from Use Tax.

Beginning on July 1, 2008, the State Sales Tax was increased to 6.0% with one-sixth of the tax devoted to school infrastructure. With the increase in the State Sales Tax rate, the school infrastructure local option (SILO) Sales tax was repealed. In addition to the State Sales Tax, with voter approval, local jurisdictions can impose a local option Sales Tax (LOST) of up to 1.0%.

The Use Tax (Consumer and Retailer) rate was also increased to 6.0% beginning on July 1, 2008, with one-sixth of the tax devoted to school infrastructure. The Motor Vehicle Use Tax remains at 5.0%. The Use Tax is not subject to LOST (except for transactions involving natural gas, natural gas services, electricity, or electric service). In general, the Use Tax includes:

- Tax collected by out-of-state based firms making sales of tangible personal property or certain services purchased for use in Iowa (Retailer's Use Tax).
- Tax on goods or services purchased tax free by consumers and subsequently used in Iowa (Consumer's Use Tax).
- Tax collected by Iowa county treasurers or the Iowa Department of Transportation on vehicles subject to registration (Motor Vehicle Use Tax).

The Iowa Sales Tax was first imposed in 1934 in HF 1 (Net Income and Retail Sales Tax Act) for a three-year period at a rate of 2.0%. The Sales Tax was made permanent in 1937 with the passage of SF 316 (Sales Tax Act). The Iowa Use Tax was enacted in 1937 (SF 317 – Use Tax Act) in conjunction with the permanent adoption of the Sales Tax at the 2.0% rate. The tax rates were increased to 2.5% in 1955, lowered to 2.0% in 1957, increased to 3.0% in 1967 and 4.0% in 1983. The rate was changed to 5.0% in 1992. During the 2008 Legislative Session, the SILO was repealed and replaced with the 1.0% point increase in the State Sales/Use Tax in HF 2663 (State Sales/Use Tax for School Infrastructure Act).

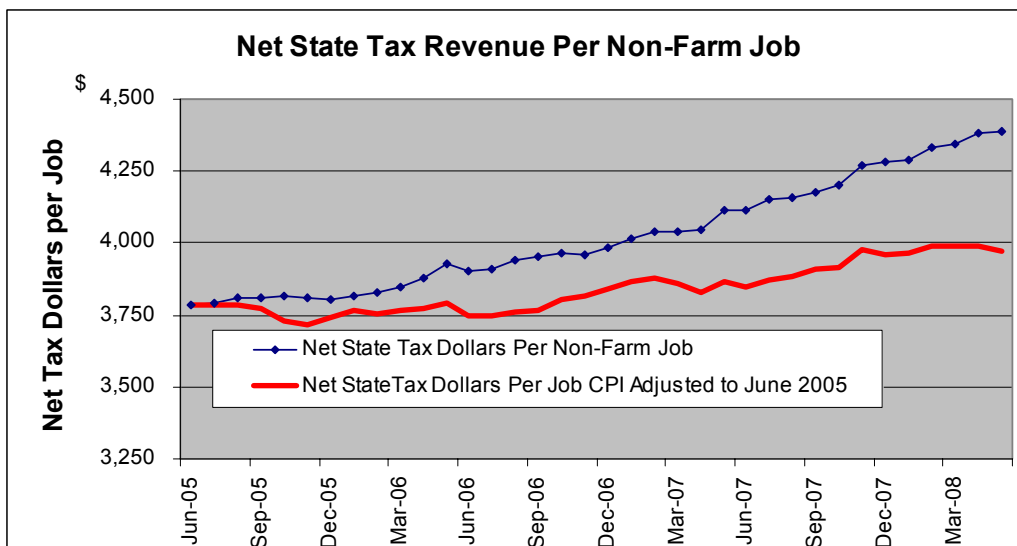
The jurisdictional local option Sales Tax (LOST) was approved during the 1985 Legislative Session in HF 395 (Local Option Sales Tax Act).

The school infrastructure local option (SILO) Sales Tax was approved during the 1998 Legislative Session in HF 2282 (Local Option Sales Tax for School Infrastructure Act).

Retailers who sell tangible personal property or taxable services are responsible for collecting the State Sales Tax and any local option Sales Tax. The retailers are required to hold a retail permit and file a tax return. Depending on the amount of tax collected, deposits are due annually, quarterly, monthly or semi-monthly. State Sales Tax is deposited in the State General Fund. State Sales/Use Tax for school infrastructure and LOST are initially deposited to the State General Fund and are transferred to special funds near the end of the month. Disbursements to local entities imposing the tax are made monthly from the special funds.

## Tax Revenue and Employment

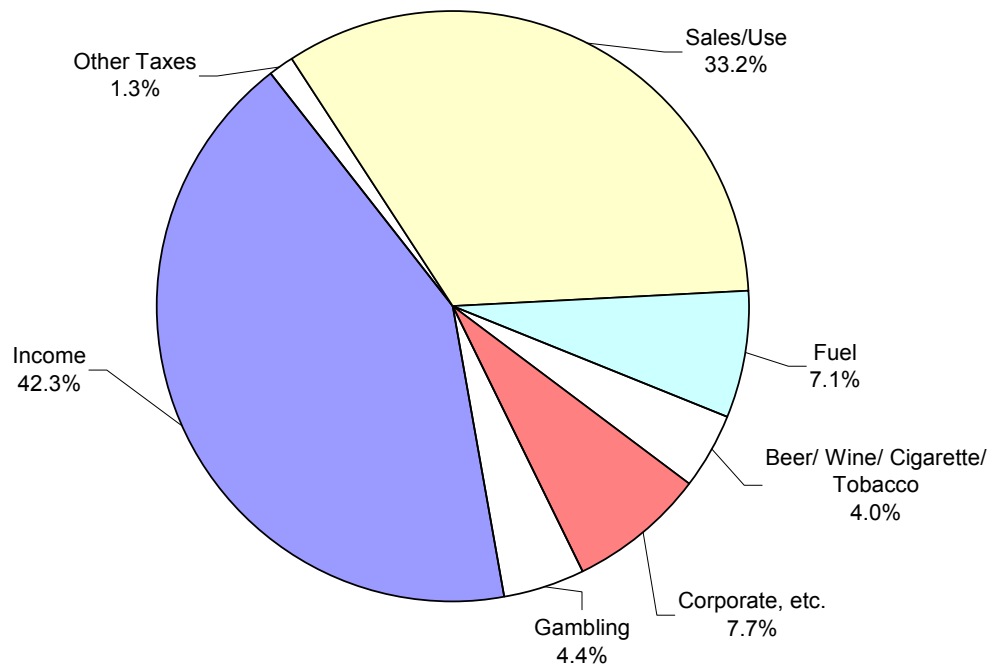
The average reading for Iowa non-farm employment over the 12 months ending May 2008 is 1,521,500, and net State tax receipts over the same 12 months totaled \$6.678 billion, or \$4,389 per non-farm job. This is \$604 (16.0%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 11.4%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.6% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending June 2008

**Net Revenue = \$6.753 Billion**

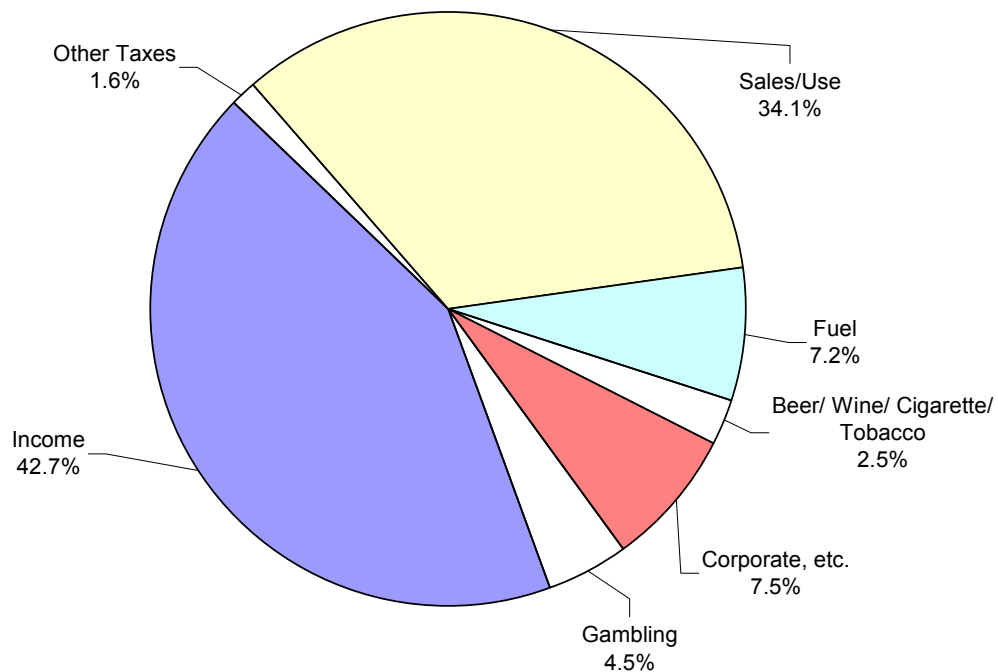
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending June 2007

**Net Revenue = \$6.221 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of June 2007</b>	<b>Month of June 2008</b>	<b>June \$ Change</b>	<b>June % Change</b>
Banking	\$ 32.4	\$ 34.2	\$ 1.8	5.6%	\$ 4.5	\$ 6.1	\$ 1.6	35.6%
Beer & Wine	20.3	20.7	0.4	2.0%	1.9	1.9	0.0	0.0%
Cigarette & Tobacco	133.7	250.2	116.5	87.1%	25.2	23.4	- 1.8	-7.1%
Corporate Income	326.1	371.9	45.8	14.0%	40.5	59.9	19.4	47.9%
Fuel	448.4	477.2	28.8	6.4%	38.0	68.8	30.8	81.1%
Gambling	277.9	296.4	18.5	6.7%	22.3	23.2	0.9	4.0%
Individual Income	2,656.3	2,857.2	200.9	7.6%	227.4	234.0	6.6	2.9%
Inheritance	74.0	77.4	3.4	4.6%	5.7	8.6	2.9	50.9%
Insurance	105.2	111.7	6.5	6.2%	26.8	26.9	0.1	0.4%
Other Taxes	4.5	- 5.7	- 10.2	-226.7%	2.9	1.7	- 1.2	-41.4%
Real Estate Transfer	17.9	17.5	- 0.4	-2.2%	1.6	1.3	- 0.3	-18.8%
Sales/Use	2,124.5	2,244.5	120.0	5.6%	159.5	175.3	15.8	9.9%
<b>Total Net Taxes</b>	<b>\$ 6,221.2</b>	<b>\$ 6,753.2</b>	<b>\$ 532.0</b>	<b>8.6%</b>	<b>\$ 556.3</b>	<b>\$ 631.1</b>	<b>\$ 74.8</b>	<b>13.4%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 6,870.7	\$ 7,470.6	\$ 599.9	8.7%	\$ 592.2	\$ 673.2	\$ 81.0	13.7%
Tax Refunds	\$ - 649.4	\$ - 717.4	\$ - 68.0	10.5%	\$ - 36.0	\$ - 42.3	\$ - 6.3	17.5%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,265.2	\$ 5,752.7	\$ 487.5	9.3%	\$ 465.0	\$ 512.3	\$ 47.3	10.2%
Road Use Tax Fund	\$ 697.7	\$ 739.7	\$ 42.0	6.0%	\$ 64.2	\$ 95.0	\$ 30.8	48.0%
Non-GF Gambling	\$ 219.1	\$ 234.6	\$ 15.5	7.1%	\$ 22.3	\$ 23.0	\$ 0.7	3.1%
Other State Funds	\$ 39.3	\$ 26.2	\$ - 13.1	-33.3%	\$ 4.8	\$ 0.7	\$ - 4.1	-85.4%
<b>Local Option Taxes *</b>	<b>\$ 657.5</b>	<b>\$ 708.7</b>	<b>\$ 51.2</b>	<b>7.8%</b>	<b>\$ 59.0</b>	<b>\$ 54.7</b>	<b>\$ - 4.3</b>	<b>-7.3%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## **Tax Categories Used in Table**

**Franchise (bank) Tax:** Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All Corporate Tax is deposited to the State General Fund.

**Motor fuel Tax:** All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All Inheritance Tax is deposited to the State General Fund.

**Insurance Premium Tax:** All Insurance Premium Tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

**Real Estate Transfer Tax:** Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

**Sales/Use Tax:** General Sales/Use Tax is deposited to the State General Fund, while most vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

## **Report Database**

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.